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Reflections for the Herman Miller Board

C. William Pollard

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As I complete my term as a Director this coming fall, I will have served in that capacity over a span of twenty-three years.

It seems just like yesterday when Max first visited me about joining the Herman Miller Board.

For me it has been a continuous learning experience. I have learned from the interaction with my colleagues on the Board, Senior Management, and other members of the team. It has been stimulating, fun, and at times stressful. Many of the lessons I have learned, I've been able to apply in my other leadership responsibilities. I'm indeed grateful to all of you and to all of my former colleagues and members of the Management team, you have been great teachers. I feel like I have received more than I have been able to contribute.

In fact, as I will comment on later, there have been times during my directorship, as I now look back, that I feel like I have failed our owners, our customers and our employees.

Tonight, I want to share with you some of these learning experiences so as you look at your responsibility as a board going forward, you will be better able to understand that portion of the past that may be a prologue, and that portion of the past that is no longer relevant.

The future of Herman Miller is in your hands. You are the ones who are responsible and accountable.

My reflections tonight have been helped by a review of the Annual Reports of Herman Miller for the last twenty-three years. These reports constitute our primary means as a Board of communicating to those we represent, that is, our shareholders. In communicating what has occurred we also set an expectation for the future. The experience of rereading these reports has reminded me of that old adage “Life is often better understood looking backward, than looking forward.” The perspective of 20/20 hindsight can be amazingly clear.

My first lesson of learning at Herman Miller related to the Herman Miller view of people in the work environment. It was the whole person, not just a pair of hands that came to work every day. It was that whole person that D.J. DePree was better able to understand upon the death of the company’s Mill Right. As he visited his widow, he discovered that this employee was not just a Mill Right but was also a very gifted poet.

Many years later, Mike Volkema described it as Herman Miller being “serious about business and serious about people and the connection of both”.

At Herman Miller, people are treated as the subject of work, not just the object of work. We are about the business of the development of who people are becoming not just what they’re doing or how they’re doing it. As a board, we are responsible for reviewing whether this is continuing to occur. Are we taking enough time to do so?

My second lesson of learning reflects my failure from time to time, to understand this business at the margin. If one can know a business at the margin, one is better able to understand that part of the future that is already happening. Let me take a moment and further explain what I mean.

I joined the Herman Miller Board in the fall of 1985. We had just completed a ten year period of record growth. And Fiscal ’85/86 appeared to be another year of continuing this trend. But as one looks back, it seems clear that by the end of that year we were in a trend of being less profitable at the margin. But you know that year, none of us seemed to be aware of this reality. In fact, in our ’85/’86 Annual Report we reaffirmed to our shareholders that the success of the previous ten years was indicative of what one could expect of the future.

During that previous ten year period the value of Herman Miller stock had grown on a compounded annual basis of over 40%. The average annual growth in earnings over this period was 30 percent.

As we set this expectation, we also celebrated the reality that truth is often found between the lines. As I look back I’m not sure we understood where those lines were, at least, I did not.

By the end of fiscal year 1988, after experiencing declining earnings in the previous year, we still did not seem to understand the business at the margin. We had a volume related increase in earnings in 1988 and then told our shareholders once again that we could keep up the kind of growth that distinguished the Company from ‘75-‘85. In addition to expected growth in our business, we pointed to expectations of growth from our healthcare business which by that time we had been operating for 17 years and a new business initiative which we had to discontinue two years later. What was actually happening, however, was that we were losing our pricing power and we were not addressing our cost structure in fact we were adding to it.

The reality for our shareholders was that for the next ten years there would be no significant growth in earnings or market value. Among other problems we had missteps and write-offs of acquisitions in the wood case business and in our healthcare business. In ‘94-’95, our market value and share price were fifteen percent less than they were ten years earlier.

Although there were many changes and initiatives during this period, including three changes in the CEO position, the net result was less value for our shareholders. As a director, I failed in not pressing for an understanding of the business at the margin, and achieving a performance standard for management that would require a return that exceeded our cost of capital.

But this need to understand a business at the margin is not just limited to a marginal revenue, or marginal cost curve or identifying a breakeven point; it also involves seeking to understand the marginal changes of customer needs, the marginal growth or lack thereof of the people producing the results and the marginal growth or lack thereof of the leadership of the firm – including a serious and thoughtful succession planning process.

It was during this period of time that we as a Board also experienced the reality that leadership does make a difference. It is a reminder to me of Peter Drucker's saying that "A board is just as good as the CEO wants it to be".

There is a high risk for the shareholder, employee and customer when a Board fails in succession planning and has to recruit a CEO from the outside. I have experienced the reality of this risk at Herman Miller, Unum Provident and ServiceMaster and have seen the resulting costs when a recruited CEO fails and has to be terminated.

The flip side of this reality is what we experienced as a Company when, at the end of this ten year period, Mike assumed the leadership responsibility at Herman Miller. Within the next five years, we had two stock splits and our sales and market value grew to exceed two billion dollars. Yes, thereafter there was a downturn with a sliding economy, but the response and direction given by Mike and now from Brian, has brought back a momentum of growth to this Company.

One thing however that has remained constant during this 23 year period is that our business is still a cyclical business dependent upon trends in our domestic economy. Over the years we have tried in many different ways to establish a substantial second growth curve beyond our core. However we have yet to do so. Will it come from Convia, the International business or healthcare? None of us really know for sure, but I hope all of us realize the importance of this second growth curve as part of our growth performance and increase in value over the next ten years.

During my tenure, I have also been reminded from time to time, that the most valuable assets of a firm often are not recorded on the balance sheet, and those internal control and risk assessment system that we are so careful about do not seem to help much with these assets of great value.

As Drucker told us in one of our early planning sessions, our business is the development of people. Without talented, motivated and inspired people there is no innovation, no creative design, no leadership. We package what we do in all different ways to meet the needs of our customers. But it is our people who are our most important asset. And yes, they walk out the door every night.

We have also learned the importance of the value of intellectual property. The value of patents became an important competitive tool in our market. It was painful to learn this lesson at the expense of paying over $40 million to a competitor and see that same competitor build and increase their capital base by getting more than three times that amount from others. It has been I believe, a lesson well learned.

As a Board, we must continue to review the growth or dissipation of the value of these intangible assets of our people, our reputation, our brands, our intellectual property and our excellence in design.

Ethics and values have always been an important part of the fabric and culture of Herman Miller. As you know, when I talk about this subject, I come to it within the framework of my faith.

My source for an ethos, or ethical way of life comes not from a set of laws, rules or codes, but from my faith in God and the example of the life of His Son, Jesus Christ. As Socrates asked the question, is a thing good because God likes it or does God like it because it is good? – my answer would be an affirmative to the first part of this question.

Ethical principles are sometimes referred to as virtues; Virtues such as integrity, honesty, responsibility, loyalty, compassion, and caring for others.

As I conclude tonight, I would like to comment on a virtue not often described as such but one I believe is consistent with my faith and with the business of business and the business of life. It is the virtue of profit.

Psalm 24 reflects a principle of ownership that is at the heart of both the Jewish and the Christian faith, and it is that God owns everything in The life we have been given, our talents, our time, our resources and the world around us. We are not the owners, we are just stewards. What we possess, we do so as trustees.

Jesus took this principle and taught his Disciples from the parable of The Talents. A master went on a trip and left his possessions in the hands of his three employees. And then he came back and asked for an accounting. The first employee had been given five Talents and doubled it to ten. The second employee had been given two Talents and then doubled it to four. The third servant was fearful of his master and instead of investing his one Talent, he buried it so he could give it back to the master when he returned. The master condemned him for this action and pointed out that he didn't even put it in the bank for interest. The principle here is that God doesn't want us to give back what He's given or entrusted to us, He wants more. That more is what we call profit. It is God's economy of surplus.

It is this principle that guided D.J. as he initially established The Giving Program at Herman Miller. It was not just a matter of a tithe.

It was this principle that caused Max DePree to view the leader as having a posture of indebtedness to the people he or she led. A liability, if you will, of the leader to develop people in who they were becoming not just what they were doing.

This principle is also behind what has guided Herman Miller in dealing with issues of diversity, inclusiveness and participation.

It was this principle that guided Mike to have more participation from the employees in the Giving Program. It was this principle that has caused Mike and Brian to recently review the relevancy of the five percent standard for the Giving Program.

It is this principle that continues to foster within Herman Miller, the stewardship of our environment, the encouragement of innovation and creativity and the recognition of the dignity and worth of every person. A principle that for me reflects the reality that everyone has been created in the image and likeness of God with their own fingerprint of potential. Yes, this would include even a millwright, a shop foreman and a janitor.